

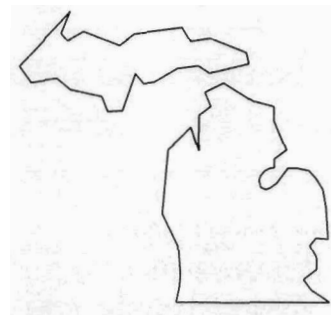
**DEPARTMENT OF COMMUNITY HEALTH**

**AUDIT OF THE**

**KALAMAZOO PSYCHIATRIC HOSPITAL**

**CASH ON HAND PROCEDURES**

Michigan Department of Community Health  
Office of Audit  
Special Audits, Review and Compliance Section





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GOVERNOR

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OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI  
DIRECTOR

April 14, 2006

Ms. Janet Olszewski, Director  
Department of Community Health  
Capitol View Building, 7<sup>th</sup> Floor  
201 Townsend Street  
Lansing, Michigan 48913

Dear Ms. Olszewski:

This is our report on our audit of the Kalamazoo Psychiatric Hospital Cash on Hand Procedures focusing on internal controls in the accounting office during the time period of October and November 2005.

This report contains an introduction, audit scope and methodology, objective, conclusion, findings and recommendations.

This report also contains a corrective action plan submitted by Kalamazoo Psychiatric Hospital for each finding.

We appreciate the cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "James B. Hennessey", with a long, sweeping flourish extending to the right.

James B. Hennessey, Director  
Office of Audit  
Internal Auditor

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CASH ON HAND PROCEDURES**

**INTRODUCTION**

KPH utilizes an imprest cash fund to provide cash for a variety of on-site and off-site activities. This cash is used to pay for patient field trips to movie theaters, bowling alleys, and on-site activities such as bingo games and other activities planned by the KPH activity therapists. The activities are intended to be therapeutic in nature and to provide opportunities for the patients to interact with the community. This imprest cash fund is also used to provide spending money for indigent patients. KPH also uses a second cash fund representing cash that actually belongs to the patient(s) that can be distributed and used by the patient(s) for their own personal use. Patients can withdraw/deposit funds from their account, depending on their balance, between the hours of 8:30 A.M. and 3:00 P.M. KPH has developed several internal procedures governing the use of these cash accounts that cover such issues as vault cabinet key security, cash handling, disbursement of cash for consumer activities, cashiering and accounting for bank deposit transactions, separation of duties, and the reconciliation of cash balances. The Department of Management and Budget (DMB) Administrative Guide to State Government Procedure 1210.11 governs the use of imprest cash.

**AUDIT OBJECTIVE**

The audit had the following objective:

To evaluate the effectiveness of the internal controls in place regarding cash on hand at the Kalamazoo Psychiatric Hospital.

## AUDIT SCOPE AND METHODOLOGY

Our audit included an examination of the use of the imprest cash fund and the patient account cash funds for the months of October and November of 2005. We reviewed applicable KPH policies and procedures. We observed the layout of the accounting office to assess the adequacy of the security measures that were in place. We examined cash replenishments for adherence to the policies and procedures and reviewed documentation supporting the claimed expenditures in the imprest cash fund and the transactions that occurred in the patient accounts cash fund. We also reviewed daily deposits and reconciliations for both accounts and the logs listing money received from the bank and/or vault.

Our examination of the imprest cash fund was limited in nature due to our focus on the patient accounts cash fund.

Our review began with a formal entrance meeting on December 5, 2005 and ended with an exit meeting on December 15, 2005.

## CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

**Background:** On October 18, 2005, the Kalamazoo Psychiatric Hospital (KPH) accounting department discovered a cash shortage of \$100 in the patient account cash funds. Another shortage of \$300 in patient account funds was discovered on October 31, 2005. As a result of these missing funds the director of KPH requested that an audit be performed to assist in the evaluation of internal controls regarding the handling of cash on hand at the facility.

Prior to our arrival, KPH had already made some changes to improve internal controls over the cash handling procedures within the accounting department. Specifically, KPH made the following improvements:

1. Two of five accounting office staff members that had access to the storage cabinet in the office vault (where cash is stored) were asked to turn in their keys.

2. Counts of all cash stored in the cabinet and the cash drawers are now required to be performed at the beginning of each day by the accounting supervisor and again at the end of each day by an accounting assistant.
3. Two accounting office staff members, the cashier and an accounting assistant are required to verify the funds every time cash is received from the bank. Each staff member initials the bands to show that they agree with the count.
4. The cash reconciliation form was modified to separately identify cash held in the vault and the cashier drawers to improve documentation identifying the individuals that performed the closing counts of cash and completed the reconciliation.
5. Written procedures regarding vault security and cash handling are being revised.

**Objective:** To evaluate the effectiveness of the internal controls in place regarding cash on hand at the Kalamazoo Psychiatric Hospital.

**Conclusion:** With the procedural improvements implemented subsequent to the two incidents, we concluded that KPH's internal controls over their on-site cash funds were generally effective. However, we did identify two areas that warrant improvement with respect to monitoring procedures over cash reconciliations (Finding 1) and access controls and safeguards over physical security of the cash in the accounting office (Finding 2).

### **Finding**

#### **1. Monitoring of Cash Reconciliations**

KPH had not implemented procedures to ensure that cash reconciliations prepared by accounting office staff were effectively monitored.

We examined nine daily cash reconciliations for the following: supervisory review, preparer's signature, initials of the individual completing the daily cash count, mathematical accuracy, and adequate supporting documentation. Our testing revealed the following deficiencies:

- a. There was no evidence of supervisory review of eight of the nine reconciliations.
- b. The preparer did not sign four of the nine reconciliations.
- c. The cashier had performed the count of cash held in the vault for all nine of reconciliations. Proper separation of duties would preclude a count of the cash by the custodian of the cash (the cashier). An individual who is independent of the custodial function should perform the count.

Cash reconciliations should have regular supervisory review to ensure accurate preparation and independence of the preparer. Failure to perform regular reviews and properly separate functions increases the likelihood that cash could be misappropriated and potentially escape detection for an extended period.

### **Recommendation**

We recommend that KPH implement procedures to ensure that cash reconciliations are properly reviewed and that the responsibilities for these functions are assigned to different people assuring a proper segregation of duties.

### **Finding**

#### **2. Security Issues**

KPH needs to improve its controls over security with respect to who has physical access to the cash within the accounting department.

Based on interviews with accounting office staff and our observations of their routine activities, we identified the following weaknesses:

- a. Physical access to the vault was not adequately restricted. Office supplies are maintained inside the vault. Although the cash is locked inside a cabinet

within the vault, limiting the number of people who need to go into the vault would provide an additional level of security. On average, KPH had \$4,800 in cash on hand in October and November 2005. In addition, patient valuables are kept, unlocked, in the vault. Office supplies should be maintained in an area that is accessible to all accounting staff outside of the vault. This would limit the need for staff to enter the vault.

- b. The number of keys to the storage cabinet where the cash is kept within the vault has not been adequately restricted. Keys have been issued to three accounting office staff members (the cashier, accounting supervisor, and lead worker), and one has been issued to the maintenance department for emergency back-up purposes. Because the lead worker has reconciliation responsibilities, this person should not have a key that would provide them with direct physical access to the cash. In addition, KPH should consider if there is a better alternative for emergency back-up than the maintenance department. The more people who have access to the cabinet, the greater the risk of theft and the greater the chances are that the theft will not be promptly discovered.
- c. KPH has no assurances that it has adequately restricted the number of keys to the locked storage cabinet and cannot be assured of the number of staff (current or former) that knows the combination to the vault. Originally, all of the accounting staff had a key to the cabinet. Although two of the keys have been returned to the hospital, KPH cannot be assured that the key was not copied and all excess keys returned. While KPH staff informed us that they believe only accounting office staff knows the combination to the office vault, the combination has never been changed so there is no way to know, with any degree of certainty, how many other current or former employees may know the combination.
- d. The physical layout of the accounting office is not adequate to alert staff when someone has entered the office. There are currently two doors to enter the accounting office. One door is a half door with a doorbell on an electric eye. The doorbell does not appear to have the effect of alerting accounting staff



that someone has entered the office as they have grown accustomed to the sound of the bell and do not respond when the bell rings. To further complicate matters, dividers surround each staff member's work area. In order to monitor who is entering or leaving the office, the accounting office staff would have to stand and leave their workstation. This layout also prevents the office staff from observing/monitoring the activities of other staff members. A variety of actions could be taken to correct this situation including, placing a lock on the half door, replacing the half door with a full/locked door, and/or modifying the layout of the accounting office so that activity in the accounting area could be visually monitored by all accounting office staff. We also observed that a second door to the accounting office is unlocked at the beginning of the day and remains unlocked while the patient accounts secretary is at her desk. Since this door is located behind the secretary, this provides another opportunity for someone to enter and leave the accounting office discretely, particularly if the secretary is involved with other activities.

### **Recommendations**

We recommend that KPH locate another secure location to store office supplies other than inside the vault.

We further recommend that KPH implement corrective measures to improve the physical security over the cash funds. KPH should consider restricting the number of personnel with access to the vault, restricting the number of personnel with keys to the locked storage cabinet, changing the locks on the storage cabinet, changing the combination to the vault, keeping the doors to the accounting office locked, and modifying the physical layout of the office making it easier to monitor who enters the office.

Implementation of all or some of these recommendations should be considered by management as part of a cost/risk analysis with those changes deemed necessary after considering the risk of loss and cost to implement the change.

## **Glossary of Acronyms and Terms**

Imprest Cash Fund	A cash fund that remains constant where the custodian will be reimbursed by check on the general bank account for amounts paid out of the fund upon presentation and surrender of satisfactory evidence of such disbursements.
Indigent Patient	A patient who has no funds in the patient accounting system and the reimbursement staff have verified that the patient has no forthcoming income is considered indigent for the purpose of the indigent fund.
Cash Reconciliation Reports	Forms used to reconcile the daily cash count with the transactions that have occurred throughout the day.
Patient Accounts Cash Fund	A cash fund that is used to provide daily deposit/withdrawal transactions for patients at KPH.

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<b>Finding Number:</b>	One
<b>Finding:</b>	Monitoring of Cash Reconciliations
<b>Recommendation:</b>	We recommend that KPH implement procedures to ensure that cash reconciliations are properly reviewed and that the responsibilities for these functions are assigned to different people assuring a proper segregation of duties.
<b>Comments:</b>	KPH has implemented these procedures.
<b>Corrective Action:</b>	Since January of 2006, daily afternoon cash reconciliations have been performed by staff other than the cashier, and confirmed one to two times per week in the morning (when the vault is opened) by staff that did not perform the previous afternoon's reconciliation. When the afternoon cash reconciliation is performed, the Cashier's Vault Log total is reconciled to the cash counted by the other staff. The supervisor counts all the cash once or twice a month, and either the supervisor or the lead worker reviews all the reconciliations within a month of completion.
<b>Anticipated Completion Date:</b>	Ongoing.
<b>Responsible Individual:</b>	Sue Glenn, Accounting Services Supervisor

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<b>Finding Number:</b>	Two
<b>Finding:</b>	Security Issues
<b>Recommendation:</b>	<p>We recommend that KPH locate another secure location to store office supplies other than inside the vault.</p> <p>We further recommend that KPH implement corrective measures to improve the physical security over the cash funds. KPH should consider restricting the number of personnel with access to the vault, restricting the number of personnel with keys to the locked storage cabinet, changing the locks on the storage cabinet, changing the combination to the vault, keeping the doors to the accounting office locked, and modifying the physical layout of the office making it easier to monitor who enters the office.</p>
<b>Comments:</b>	KPH has taken action on these recommendations.
<b>Corrective Action:</b>	<p>On December 19, 2005, the office supplies were moved out of the vault area to a hallway between the Accounting Office and the Consumer Accounts office.</p> <p>On January 19, 2006, the locked cabinet was moved into that hallway, and only pre-numbered forms are stored in that cabinet. A fireproof, keyed safe with a combination lock was installed in the vault area that day. The safe contains the blank manual warrants and the funds that are not in use by the Cashier that day, and</p>

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the safe is only opened in the presence of two staff; a logbook is signed by them when that occurs.

The Cashier and the Supervisor are the only Accounting Office staff who have keys to the safe or have the combination to the safe. An extra key and copy of the combination is kept in a locked area by the Hospital Director's Secretary, who can open the safe in the event that the Cashier or Supervisor is not available. Also an extra key is locked in a safe in the facility's Key Room, and special procedures have been created to obtain that key and the combination if the other keys are not available. The combination can then be changed. It will also be changed periodically, as a security measure.

Since December 8, 2005, access to the Accounting Office copier has been restricted to Accounting Office staff. A full locking door was ordered for the Accounting Office. It was delivered to the hospital and will be installed as of approximately April 14, 2006. Only staff who have business that cannot be conducted via the Cashier window are escorted into the Accounting Office, and that is rare. The door to the Consumer Accounts office is always locked.

**Anticipated Completion Date:** April 14, 2006

**Responsible Individual:** Sue Glenn, Accounting Services Supervisor